Peterson Institute for International Economics

The Florence Report: An agenda for Europe

June 11, 2026

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[00:00:18.20] - Adam S. Posen

Hello everyone and welcome back to the Peterson Institute for International Economics. I am delighted today to be moderating or hosting an event joint with the Center for Economic Policy Research of Europe. On the Florence Report for this year, An Agenda for Europe. This is a bold and I think important report involving many scholars and practitioners and people at the intersection of policy about how Europe can confront the many challenges we're all familiar with, including the newest geopolitical ones towards getting an integrated and more cohesive approach to economic policy. This is political economy in the best sense. It is thinking about resilience and solidarity. It is thinking about sustainable growth and trying to do an economically sensible strategy that does that. The editors and the authors have explored the path towards what they're calling a new European social contract. Um, and so accordingly, we have summoned together some of the best political economy thinkers as well to discuss this report. We are very proud at the Peterson Institute to be the leading platform for serious discussion of European economic issues in the US and to partner recurrently with CEPR. Speaking today in the order they will be speaking, our first, the two editors of the volume, Giancarlo Corsetti, who is Pierre Werner Chair at the Robert Schuman Center and Professor of Economics at the European University Institute.

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He's previously been Professor of Macroeconomics at Cambridge and is a fellow of the British Economy Academy, a consultant of the European Central Bank, and is coordinator and CPR of the European Macroeconomic Policy Research and Policy Network. Many other issues, and we've always been able to count on Giancarlo for marvelous applied yet rigorous economics. We are fortunate as well, the other editor of the report is Marco Budi, who since 2023 has been the Tommaso Patacoppa Chair at Robert Schuman Center also at EUI. But previously, he was Chief of Staff to the Commissioner for the Economy, Paolo Gentiloni, at the European Commission, and most known for a distinguished career of public service in DG ECFIN at the European Commission, including a long service from 2008 to 2019 through the Euro crisis, through the global financial crisis, and into COVID, up till COVID. As Director General of

Economic and Financial Affairs at the European Commission. Moreover, he has been the Commission Finance Deputy at the G7 and G20. Following these two distinguished speakers presenting the report, we will have three commentators. First will be Harold James, the Claude and Laura Kelley Professor in European Studies at Princeton, a professor of history and international affairs at the Princeton School of Public Policy and an associate at the Bentheim Center for Finance.

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This vastly understates, of course, the impact that Harold has had with his series of books, including his groundbreaking study of the interwar depression in Germany, A German Slump, 1986, his book on international monetary cooperation since Bretton Woods, 1996, his prescient but still hopeful book, The End of Globalization, from 2001, and on and on. And we've been privileged privileged to have him present at Peterson many times. Following that is Beatrice Vader de Mauro, who is president of the Center for Economic Policy Research and holder of the André Hoffmann Chair of Economics, Climate and Nature Finance at Geneva Graduate Institute. Prior to taking those two roles, she was research professor at INSEAD in Singapore and previously professor of economics at Gutenberg University in Mainz. Her leadership of CEPR has taken the organization to new heights in both quality and influence. And finally, every economist's favorite political scientist is Jeffrey Frieden, the Professor of International and Public Affairs and Political Science at Columbia. He has— calls himself a specialist in politics of international economic relations. And of course, well, the seminal Global Capitalism: Its Rise and Fall in the 20th Century, with a second updated edition after the euro crisis.

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We are delighted to have all of these people with us today. This is on the record and we hope to see the way forward for Europe. So with that, let me turn to Giancarlo Corsetti, please.

[00:05:09.07] - Giancarlo Corsetti

Thank you, Adam, and thank you, Beatrice, for hosting this presentation. I thank in advance the commentators. Let me start saying that this is a report which is the flagship initiative of the EMU Lab, which is a laboratory that Marco Butti and I promoted at the UI as a way to contribute to revamp the debate on European integration. So we are fully focused on what is going on now, on the budget reform, on the discussion on the saving investment union, on the discussion on the greening, the transition, the energy transition, as well, of course, defense. In this report, we take a small step back And we do it collectively with Anna Paicev as the third editor of this report, but also with 30 chapters by many people from different parts of Europe and the US, academics and policymakers. And we try to sort of reflect on what has changed, what is changing in the last few years that can reframe how Europe can think of its way forward. What is it in the world that is basically challenging the way forward of Europe? And we came up together collectively with this idea that if you look at the past of Europe, what you see for many years, for many decades, Europe has gone forward, of course, out of an inner drive of an ideal, but also sort of counting on a framework, counting on institutional economic framework at global level, that sort of relieved Europeans from taking full responsibility in many areas which are essential component of the, of a large geopolitical region.

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The US provided, of course, the defense, provided the hegemony on a rule-based global governance system. There was enough freedom to count on an external market to absorb surplus from Europe. There was a sense of stability, there was share across the world. So this reduced responsibility model was what was the past of Europe, something that allowed again Europe to take bold initiative with a single market after the liberalization in the '70s, with the introduction of the euro in the Great Moderation period after the millennium. And of course, also going through large crisis like the global financial crisis that sort of called some of the problem in Europe, called off the problem in Europe during the producing the European debt crisis. So what we see in front of us for Europe to think about budget, defense, single market, infrastructure is a world in which we have a redefinition of the geography of risk. And let me be crude, perhaps a little bit pushing the idea. Let me talk about good risk and bad risk. So what I mean, good risk means that there is a lot going on. On the innovation, on the technology. In the US, there is a trend of an increasing risk, especially on the corporate sector, that goes hand in hand with the dynamics of the corporates.

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This has been— risk has been compensated, so it has been attractive. People invest in the US equities because it's attractive risk. And this is looking at the end of the, of the tunnel. There is this anticipated AI-driven productivity surge. The counterpart in Europe of this risk is the idea that we need to invest in a single market to scale up our initiative, our, our, this economic and political space. We can do it in a great way because with our regulatory, um, covenants in Europe, we could try to avoid regulatory capture and political capture there. But this is an open question for Europeans. We can also have some role as middle power alliance in maintaining an external network of trade and rule-based international relations. Here the bet, the risk is to find EU-specific innovation trajectories that are compatible with the social model of Europe and can actually feed the consolidation of the social model of Europe. Now, there is a bad risk out there. And the bad risk is the fact that when the US and China reconfigure the level of conflict, the US has now a fiscal sustainability issue. There is a clear political capture.

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There is the idea that AI may end up having a bubble component that can be destabilizing. There is a geopolitical fracture coming for a conflict that sort of changed the nature of the US as a provider of international insurance. Insurance as a very strong actor trying to achieve primacy and centrality by basically establishing a ranking of risk between the US and the rest of the world. So at the end of this tunnel, the bad risk may foreshadow the possibility of financial repression or undoing of the regime of capital mobility and freedom in capital flows that has been the height of hyperglobalization. On the European side, the risk is actually very strong and very clear. And what we call a fragmentation trap, which is there is the possibility of creating policy space, common, common, commons, European commons through cooperation and coordination in Europe. But we have a political class that sort of presenting everything as a zero-sum game. So this inward-looking attitude may actually destroy policy space. There are heterogeneous preferences that are well known in Europe, which may translate into an implosion of policy space rather than enhancing policy space for basically develop the good risk that is, you can see on the top of this.

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So basically marginalization, low growth and productivity is is the bad light at the end of the tunnel we would like not to take. So this seems, as Adam would say, abstract, but we thought it was the right framework to basically trying to elicit, trying to revamp a debate on why Europe, why Europe now, and how to do it despite all the institutional political constraints that we have. I leave it to Marco to be more precise on the way we think about the way forward.

[00:12:09.29] - Marco Buti

Thank you. Thank you, Giancarlo. Thank you, Adam, Beatrice, for hosting, hosting this talk. I think there is widespread agreement in Europe on the unsustainability of these, of what we have called the reduced responsibility model. I think the fact that this model here, this external leg, which stabilized somehow the European table, has gone. I think it's gone for good. So I think also in, you know, marginal side of the, of the political spectrum, I think there is an agreement that this reduced responsibility model is not viable anymore. And those conditions are not going to come back, I think, anytime soon. However, I think there are two different ways and radically different ways to, you know, approach the way forward. The first one is what, you know, the typical of a more intergovernmental approach. Europanations, cooperation between member states. So this is one way forward. The other one is what we have dubbed as a renewed community method, which is based on integration, role of EU institutions, you know, revamping the way of living together. So these two models have radically different answers to the issue of defense and security. So the intergovernmental would go more, would rely more on, you know, higher national spending, ad hoc coalition, coalitions.

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I think the renewed community method instead would focus more on the creation of a defense union, single market for defense. The second, the second leg of the reduced responsibility model to be overcome is the issue of growth and stability. So reliance on the rest of the world to pull us up. And here on the intergovernmental, there would be more, more trips to Beijing, you know, by national leaders with, you know, a group of entrepreneurs trying to, you know, get better conditions. So neo-mercantilism, I think national industrial policies based on you know, loose state aid and at the end of the day, fragmented financial systems. If you take the more integrationist approach, I think there you'll have a development of central fiscal capacity. I think a safe asset repeating and, you know, improving on what we did in the Next Generation EU and also a strengthening of the euro's international role. Via, you know, completing saving and investment union and banking union. And finally, on the global governance, the intergovernment approach would go for a network of bilateral agreements, and the more integrationist approach would follow Mark Carney on taking the lead on alliance of middle power.

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I think the most Probably in terms of current events, the most glaring difference between these two approaches is on the ongoing discussions on the EU budget and the fiscal rules. There will be, I say that these current events are very pressing because at the European Council on the 18th and 19th of June, EU leaders will actually talk about this. So what kind of EU budget we will want for the medium term in the future from '28 to '34, and '28 is actually tomorrow because the new budget will have to be ratified at the national level. It's going to take roughly a year for that. I mean, so if you take the intergovernmental approach, the emphasis will be more on national transfers. I think protecting traditional spending, you know, regional cohesion funds, agricultural spending. I think something on industrial policies, but very limited. If you take the second approach, there's a renewed community method. You would go for, you know, an increase in the ambition of the EU budget and what we have called in the report an EU budgetary system. So a vertical articulation between national and EU spending in areas such as defense, competitiveness, and following essentially, let's say, Draghi, Letta in their reports.

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So these two approaches. And okay, it goes a bit without saying that in the report we consider that the second way, so renewed community method, to be more effective, to avoid the marginalization, optimize the good risks and, you know, downsize the bad risks. But there is not only— and here I conclude in this first part— there is, I think there is a need really. We are at an existential moment. How many times we had it in the past, but this time has the conjunction of the the political, the economic and financial, I think is such that this connection is clearly key. So what we say in the report, we will need to revisit radically what we, the way, I mean, our way of staying together. So the concept of solidarity through a new European social contract, and here we borrow from the late Jürgen Habermas, you know, a critical spirit of Europe, actually, in moving towards an insurance-based solidarity model in which you don't have the, you know, one-way street where resources are transferred from the north and center Europe to the east and to the south. But there is a two-way approach. And if you think about the risks, especially the bad risks that Giancarlo talked about before, I mean, you think about, you know, look forward, we are going to face most likely more symmetric risk, more, you know, more important risk.

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And self-insurance is, I think, key. Now, all this has to run through the door of the political feasibility, and that door is very narrow. Now, so do we finish us with, let's say, a pessimistic view or not? I— we do not, actually. And in a sense, we borrow actually, Adam, from one of the things that you said in giving the EMULAB annual lecture back in March, that, you know, rules-based system domestically as well as internationally is a scarce commodity whose value is going up. And I think we have that kind of, that element that would in a sense substantiate what Giancarlo said about the EU-specific innovation trajectories in Europe. You know, to move in that direction, I think we need more mutual trust, member states are, you know, they have a very high discount rate. They are not, you know, lift their sight and look more and more to the future. We have one important hope. If we look at citizens' preferences, the preferences of citizens across a number of priorities which are key for Europe today, we see a considerably less heterogeneity among citizens than you have amongst governments. So political scientists, and here maybe Geoff can tell us, I mean, they tend to appeal to the more to the marginal voter, not so much to the median voter.

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And so they exacerbate the divergences. Citizens, even in frugal countries, Mediterranean, they have preferences which are considerably more aligned. So in a sense, that is an element of hope and optimism., which hopefully will help us to go through that narrow door I talked about. Thank you.

[00:21:12.29] - Harold James

So thank you. It's wonderful being here. Thank you, Adam. Thank you, Beatrice, for organizing this. It's a wonderful report, very, very illuminating. And I'm fully in agreement with the underlying spirit of this, that there is actually in many ways a lot of cause to be optimistic about Europe. But a lot of the cause for the optimism is a kind of negative one. It's negative because things are going badly wrong in other parts of the world. So they're going badly wrong in the United States. They're going badly wrong in, in China. You've heard some of the reasons. The United States has this enormous fiscal issue. China has a really terrible long-term demographic issue. So for a long, long time, for decades, they had the one-child policy. In 2016, when they ended the one-child policy, that was the exact year in which the birth rate took a radical dip. Um, so there are these long-term problems that these giants, superpowers, whatever you like to call them, um, are facing, and they're making a bet in order to deal with that future on AI. And the AI bet is that AI will solve the demographic problem because you can solve the work problem with AI, and it will solve the fiscal problem in the United States because it will make productivity grow so quickly that the debt issue will disappear.

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And I'm worried a little bit in the report and in some of the things that the report draws on. It's, it's, it's, it's very much a nice updating of the Draghi and Letta report from a couple of years ago. I'm worried that there's too much of a proclivity to be more like the Chinese and more like the United States and to emphasize less what makes Europe particularly viable. And it— there was a nice set of slides that the authors presented that were drawn from the, uh, the long report. But one of the first slides, um, talked about getting away from the small country syndrome and being more effective, um, being more like a global superpower. Um, but I, I think when I reflect on what's been successful, what's worked in Europe, over the last 50, 70 years. It's really exactly from small countries that a lot of the dynamism has come, and it comes across in the report as well, that if you think of success cases, you think of Denmark, you think of Scandinavian countries, you think also, I think you should add, to the Baltics. Um, if you're thinking about making governance closer to the people, more effective, the pioneer of that was Estonia.

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And Estonia provided a model for many, many other countries, including Ukraine, and it helped to make Ukraine so resilient. Whereas the large countries, uh, France, Germany, Italy, the UK— not obviously anymore in the EU— um, are much, much slower in doing that and much less effective. And They're talking about dismantling bureaucracy and making things less bureaucratic, but they're still enormously, enormously bureaucratic. So, you know, it was my reaction as well to Draghi's letter that there was too much really on the problem of the big European countries and too little on the dynamism of Northern Europe, Baltic Europe, Eastern Europe as well. You could put Poland into this, you could put, you know, with big political problems, Bulgaria or Romania as well. But these, these are dynamic countries. And what exactly the attraction of those countries is, is that they don't pretend to be big countries. They don't think that they can make the rules of the world new again. They realize that they need to be adaptive. Their citizens feel a responsibility to do things. They're prepared to take on really harsh sacrifices at some moments. The Scandinavian countries in the 1990s, the Baltics in the, in the 2000s, and in the euro crisis, um, these are countries that are prepared to make sacrifices.

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And I think that spirit is really needed in the sense of addressing the current issues, and we're just at the moment, we're really at a turning point. We heard about strengthening the community method, renewal of the community method, but this is the moment in which, at the moment, there's a real pushback against the External Action Service. The The European fighter jet project has just disintegrated. There are all kinds of problems there. So then thinking of what needs to be done, I think that they've been listed very well, and I think everybody is familiar with them. A capital markets union, and it may be that you can sell that more effectively, and that's one of the points that the report is very strong on. If you rename it as the Savings and Investment Union, it may be more attractive than talking about the Capital Markets Union. But that again is something quite old. Mario Draghi was pushing for that even before he became president of the ECB. It's long on the agenda. Having an energy union is enormously important in today's world. Having a defense union is also impossible— important, but very, very difficult to do.

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And, uh, you know, just a little historical reflection, if I may, on that. Um, so the whole European story begins— the modern European story begins in the aftermath of the end of the Cold War with the Maastricht Conference in December 1991. And at Maastricht, it was just within a few days of a meeting in Belavezhe, where the Soviet Union was formally declared to have ended. So this was Belarus and Ukraine and the Russian Federation ended the Soviet Union. And Helmut Kohl and François Mitterrand knew very well that some kind of big European initiative was needed. And what they chose was the monetary union. What they might have done instead was to work more on the security collaboration, but that really was frustrated by national defense industries. So the issue that the report is addressing is a very, very old one, goes back a long, long way. And it may be that we can overcome that, but as long as people think in terms of national champions, it's unlikely to happen. And so that's, I think, the bottom line of it, and it's nicely addressed in some of the papers, that national identity politics— the authors put it in one of the chapters that Marco wrote— national identity politics impedes progress towards formulating strategic goals.

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But again, can I insist that those national identity politics are really primarily in the big European countries, and the small European countries don't have any problem in seeing that their national identity is actually strengthened by having solidarity in a European system. I'm worried a little bit also, if I could push back on that one, on the emphasis on an insurance principle. I think it's good to think of solidarity But there's too much of a tendency, I think, in many places to think that insurance is something that you can manipulate for your own interests and you can, you can play a game with, with insurance. You know, I have to say, I'm in Germany at the moment. I've been in Germany for a few days. I took a train yesterday and, you know, I was amazed. The the conductor of the train did a big public announcement. At first, the train was going to be 53 minutes later, and then he said with an air of triumph, "We're over 1 hour late now," and everybody cheered because then they get some water and they get some of the ticket price recompensed. But this is not the right way of thinking about it.

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You, you mustn't think of this in, in these terms. And I think thinking of individual responsibility and of the responsibility of the participants of the countries as well is a good way of thinking about this. So, you know, that's my bottom line. Get away from thinking about we should be more like the United States or more like China. You don't want to go in that direction. You want to go in a very different direction. And that's a way that's empowering. And I don't know what the solution to it is. There's one absolutely fascinating chapter by Vivian Schmidt which talks about the way in which politics can be addressed. Um, and, uh, you know, there she talks about, uh, using the language of power but also using the power of language. And I can't help thinking and pointing out maybe that this, this really is a European problem because 'You know, we have common interests, Europeans have common interests,' but they find it difficult to express it in the same language, obviously. I mean, just what we're doing at the moment, having this conversation in a language that is, if you think of it in strictly institutional terms, it's the second language of one of the small member countries of the European Union, a country with just over 5 million population.

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The second language of that country rather than even the first official language of that country. And so thinking about how language can be deployed, I think, may be an interesting and promising way. And getting familiarity with other languages, also with the technical means that you have of languages, is a way, I think, of building solidarity. But, you know, it's really pushing in this direction. You need the capital markets union, you need the energy union,, and you need the defense union, and you need to think in a new way in order to get those. You don't need to think like Beijing, you don't need to think like Washington.

[00:32:25.08] - Giancarlo Corsetti

Thank you.

[00:32:27.23] - Adam S. Posen

Thank you, Harold. Certainly a note that I've been harmonizing with as well, and that I hope the authors will lean into. Beatrice, to you please.

[00:32:43.22] - Beatrice Weder di Mauro

Thank you very much, Adam, and thank you very much for Giancarlo and Marco for actually producing this amazing report and, you know, getting together so many excellent people to think about Europe and its future, present and future. And thank you, Harold, for mentioning that, you know, the common language of English is not actually the common language of Europe, even though among economists we pretend it is. And definitely it's also true what has said that the attractiveness— or I'll put it in my words— the attractiveness of the US model has definitely lost its attractiveness recently. And this is the background of the few comments I want to make. I'm structuring them in 3 parts: the puzzles, the why, and the what now. And to all of these things, this report speaks, but I would push on all of them a bit further. So, the puzzles, the first puzzle is actually of European identity. I fully agree with the report's author saying Europe is not a small country. A small country is a policy taker, not a policymaker. A small country is super open and is super dependent and tends to also want to be dependable for those reasons of dependence.

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And definitely the smaller countries within Europe, but also some larger countries within Europe would like to be small countries, sort of that's the bit, the Greater Switzerland fantasy. And yes, they are, many of the European smaller countries are very dynamic, but they also tend to take for granted that the larger countries within Europe are somehow providing. And free-riding in Europe is big, not only on trains. The second puzzle is, you know, Europe is not a middle power. I mean, why are we all citing Mark Carney and putting Canada next to Europe, rather than citing

Macron, who actually says, you know, has been saying Europe needs to be much more sovereign and has had a vision for Europe? Mark Carney represents a country that is 10 times smaller than Europe. And if you're thinking of defense spending, that's also in the area of 10 times smaller than Europe. So, the fact that Europe's talks about middle country and kind of coalitions, being one of the leaders of a coalition of middle countries is kind of puzzling and speaks to the self-image partly, but also to, you know, the fraction, the fractionalization of Europe ultimately. Now, clearly, things are changing and the report speaks to that a lot.

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You know, things are changing because Europe is under attack. And I also dare and want to push the language a bit stronger. Europe is under attack territorially from Russia, and this is already 4 years ongoing, and there is no relenting so far. And it is now also under attack from the US. I mean, what else can you call the national security strategy of the US saying that the European institutions are wrong and so are the European values? So, and the open support of both the Kremlin and Washington, this administration, for a far right-wing national communist parties, what else can you call that than attack? So, what is the— what the question then Europe is asking, and many people in Europe are asking, well, is this maybe just a passing phase and eventually the US will be back more friendly, in friendlier terms with Europe and not only with individual countries, but also with Europe as a as a continent and as a union. I cannot answer that question, but definitely from the point of view of Europe, we cannot count on that. So the second point is then why? Why is Europe finding itself in such a weak state?

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And the roots, I have two things that I would like to mention that are not typically the ones that economists go for. The roots of Europe, if you think about it, ultimately the European construction is a peace project. It is the whole idea of super vetoes and consensus comes, of course, from the fact that the threat of European countries was from within. Between countries, there was war for centuries and the construction of Europe is foremost about making, building institutions that prevent this from happening. And at the same time, and for possibly the same reason, historians can probably speak to this more, in a more informed manner, but it is a minimalist Europe that was built, and one that is mostly centered around economics, around the market, around a single market, and then eventually around a single currency. But the weakness, and this is the second weakness of Europe, what Europe was built through institutions and rules and not through identity first. So, Pascal Lamy has a very interesting article saying, you know, going, getting to the Mont Blanc through the north face, that was not the choice. The choice was not to go through the hard side, and the hard side, what would it be?

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It would have been to go through the idea of European identity first. There is no such thing, I would venture, as a real European citizen. Yes, most European citizens will hold Europe highly in esteem when asked in surveys, but the whole actual identity, the citizens, they are all citizens of somewhere, and mostly they are citizens of their nation. This is being reinforced right now. So, the idea of a real European narrative, a European language, a European vision is missing. And you see where I am here. This is clearly not where we as economists are the experts, but it is increasingly where I think we have to think more about it. And this leads me to my last point: now what? Yes, definitely, and this has been, I think, very well identified by Draghi letter and the Florence report, we need more to think more in terms of the economics of how to make Europe work. And the insurance solidarity-based model that you are proposing here, I think it has its merit, but I would also think that it may not be a center around which everybody can coalesce. I am in agreement with what you said, Marco, the old transfer model, North-South, is probably not the— and this idea of a North-South or North-East transfer model is not the future.

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Look just at energy prices. The country that has the lowest energy prices and is not really happy to share them is Spain. So, we already have an example of where the transfer that others would wish within the energy union would be from south to north. Why Italy is not as abundant in cheap energy is a completely different story, but just a footnote. So, how should we think about, you know, not in economic terms only, I mean, that's where I'm kind of getting to the real rethinking of Europe, a real rethinking of the social contract would probably want to start from something that can still be a small set of issues, but it's definitely a larger one than the ones that we have considered so far. It has to start from defense. And by calling something a defense union in analogy to a single market is not It's definitely not sufficient. It's also not sufficient to call for dual procurement or financing mechanisms. What we have to think about if we are thinking about the future is a European army under European command. And I am happy to say that, right? Because if you think a little bit longer term, it is kind of obvious.

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Similarly, where are the big, big necessities? It is a lot has to do with security, energy security, payment security, cybersecurity. These things are ideally not done in such a way that everybody does their thing and then afterwards we have a working group that coordinates. So, and finally, last but not least, there were the big, big issues of the role of Parliament, of the Council, of enlargement. How large is this Europe and how do we govern this Europe in the future? All of those things should be on the table now. And definitely they are not, they cannot be on the table all at the same time without a kind of plan. And this is why I am, you know, want to advertise a bit what I think is a complementary effort that we are doing at CEPIR under the leadership of Olivier Blanchard, Pascal Lamy, Enrico Letta, and I am also a small part of that team who are putting together something that we are calling the Euro 2050. Let's start thinking from the goal or the ideas of the future, and they may be very different ideas, but let's start talking about those. Let's start talking about visions for Europe.

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And then maybe we, if we can get some debate about that, we can also start working our way backwards to today. Thank you.

[00:43:20.13] - Adam S. Posen

Thank you, Beatrice. Jeff. Jeff, you're muted.

[00:43:28.28] - Marco Buti

Yep.

[00:43:29.10] - Jeffry Frieden

Thank you very much. And thank you, Giancarlo and Marco, for really a fascinating report, for editing a fascinating report. Many of my comments will echo things that Harold and Beatrice have said. With perhaps a little bit of a different emphasis on the political economy, recognizing that political economy is the truly dismal science. So perhaps taking us down a somewhat more pessimistic, or at least perhaps realistic view. I want to point out that this is a very important report. It comes at a time when the European Union faces some very, very extreme challenges, but also some important opportunities. A European friend of mine, said it does help to have an external enemy, and now we have two, maybe three. So that may, maybe, may catalyze some movement. The report presents what I would think of as a vision of a dramatic increase in the level and degree of integration to confront these challenges, whether in the savings investment union, European public goods funded by indirect taxation, a common defense And in essence, with apologies for maybe being abstract, this is talking about moving from— Europe is now in one equilibrium, which is a union of sovereign states and what they call intergovernmentalism.

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And they're talking about moving to really another equilibrium, much more supranational, communitarian, whatever you want to call it. And I agree that in the long run, this 2050 view that Beatrice evinced that this is almost certainly what will be required given the challenges that

Europe faced. But I do want to point out that moving to a new equilibrium will not be easy. And I think, with apologies to Harold, the historian of American history, when we moved from the Articles of Confederation, which held for about 12 years, to the Constitution, from a confederation to a federal union, this was not an easy task. It took 75 years and a civil war for it to be actually accomplished. So moving from this union of sovereign states to something more community-based is, I think, important. But it's going to take time and it's not going to be easy. Talking about European public goods, they're definitely needed. But in practice, there are obstacles. We've been talking about a capital markets union for 20, 25 years, a provision of a safe asset, a savings investment union, very ambitious. But are they politically feasible? There, the note that public opinion helps, you know, I agree with Beatrice, that's not all of politics.

[00:46:02.12]

There are powerful special interests, there are national interests, there are politicians. And all of this is taking place in the context of a virtually universal populist challenge when almost every move forward is going to catalyze a backlash, a populist backlash. On a common defense, you know, I think it's already been mentioned, it is, uh, that, that, you know, after decades the French Franco-German fighter jet is now dead, and trying to convince people of its value— and I understand there were reasons for that, uh, it's— that's not going to work at the international level. These are excellent ideas about the trading system, and I agree Europe is not a middle power. Europe went from being a group of small open economies to being one large relatively closed economy, and it's not pulling its weight in that context. But will the rest of the world cooperate with these plans for the world trading system? China, the developing countries— to remember, the crisis of the WTO is not just a crisis of America's making. What would the EU do about China? What will the member states agree on as a strategy? Because they don't seem to agree on one right now.

[00:47:09.17]

But I guess I want to say I, I do have a point. And it's not just to criticize the report for excessive ambition, because I really agree that moving to a higher level of integration is a noble goal, probably a necessary one, and eventually I hope it's an attainable goal. I, in the long run, I think that both Europe and the world would be better off if these goals are achieved. But what we need in, in essence is a plan for the transition. How do we get from the current equilibrium to a new equilibrium? How do you use, or how do you think about using existing governments, existing commitments on the part of national governments to their constituents, existing political incentives that governments face? How do we use what truly exists to move towards a greater surrender of sovereignty? What's the path forward towards that ultimate goal? And I know that there are a lot of ideas floating around, Many of them very good, and they're mentioned in the report. Coalitions of the willing where possible, but where are they possible? They're not— probably we can't have coalitions of the willing on some areas where unanimity or consensus or universal involvement is necessary.

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Maybe coalitions of the willing where they're possible and hope that people join as success accretes. For the public goods provision, maybe it's better instead of thinking about European public goods to take the political realities as given, which Beatrice has very, very accurately characterized, and think about governments supplying those public goods via cooperation rather than pushing for supranational provision of these public goods. So I guess my point is that the step that needs to be taken, and I hope will be taken, is to figure out about how do you develop support for the measures needed? Not just, if you will, verbal support, ideological support, both of which are important, but also material support. And I guess, again, with apologies perhaps for being, um, abstract from high above my— high up atop my ivory tower— I want to make a point about public goods. Because, because really what, what the report is talking about is the need for more European, Europe-wide public goods. And that really takes us in a way, analytically and practically, back to the beginning of the report. Because the end of the reduced response— they talk about this as the end of the reduced responsibility model.

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Why did the reduced responsibility model end? Because the US accused Europe of free riding. Previously, since 1945, '46, '47, the US was happy to provide these global public goods in which Europe participated. Not out of altruism, but because it realized a disproportionate benefit. It wanted to win the Cold War. It wanted to stabilize the global financial system. It wanted to do these things, and it was willing to take the lead in providing these public goods because it expected to benefit. The Trump administration disagrees. I should point out, as the sole American on the panel apart from Adam, that, that there are many Americans who don't agree with the Trump administration, that We should stop providing these global public goods. But there's a lesson here, a more analytical lesson here, which is that public goods provision is typically catalyzed by and led by those who are most concerned about the absence of whatever is not being provided. Those who stand to gain the most from provision. Sometimes I think about these as differential benefits public goods. We have to think, who has an incentive to provide these public goods? And remember that when we're talking about global public goods or regional public goods, it's not like at the national level where the problem is that you have private actors who don't have a profit-based incentive to provide those public goods.

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The incentives for governments are political. So what governments have the political incentive to provide those, those public goods, regional or global? Who's going to give governments the political incentives to take the lead in providing a safe asset, in completing the banking union, in providing for the common defense, seems to me those who stand to gain most from it. So a path forward, in my view as a political economist, involves thinking about who and where and how we are likely to find powerful groups, powerful, and, and countries who are willing and able to push for for a dramatic expansion of European supranational authority in this direction. So that's sort of the— when I step back and think about this as a political economist, I say this is a great set of goals. There have to be agents willing to carry out those goals. Where are those agents going to come from? What is the strategy to mobilize those agents so that the goals can be achieved? So to summarize, again, I didn't mean to sound negative, but to summarize, I think this is a great document.

[00:52:10.14] - Marco Buti

Document.

[00:52:11.02] - Jeffry Frieden

It pushes us, and I speak as an American, but an American very sympathetic to Europe and that thinks that Europe in some ways holds in its hands the future of the world. This is a great document which points us toward a better future for the European Union and for the world. I would only, I think, ask for more about how we get from here, where we are today, toward the endpoints they've identified.

[00:52:41.15] - Adam S. Posen

Thanks. Thank you, Geoff. We've covered a lot of ground. We are not that far from the end of our allotted time. I do want to give the editors, Giancarlo and Marco, a chance to respond. This does not have to be a rebuttal back and forth, but you're welcome to do so if there's anything anything you would like to respond to in particular, Marco, and then Giancarlo?

[00:53:11.10] - Marco Buti

Okay, maybe I can start quickly and then Giancarlo can complement. No, great comments and, you know, all very much spot on. We always say this, but this time, really, we really appreciated that. Now, on just one point, okay, on Harold, the small country syndrome, we define as having growth, financial stability, relying on the rest of the world. The EU, the euro area are large areas, so you cannot persistently subtract demand from the global economy. That's the small country syndrome we, we, we talked about. So that's actually what we say in the report. We praise the

Nordic model in terms of financial depth. To finance innovation. In terms of, you know, welfare functioning, which helps risk-taking, so supporting innovation itself, and also on targeted state aid, not across the board but very innovative firms. So I think there is a lot to learn there. There is one thing that has been mentioned by the three of you, is Carny, the Carny proposal. I mean, what we propose, what we actually say in the report, we know that Europe is not a middle power. We call Europe an incomplete superpower, but with a twist. And the twist is that it would not be a good idea to complete it.

[00:54:44.23]

Given our past, given the political realities, we cannot become a superpower like the US. And China, but we can take the lead definitely on the middle power of this world. So this is something that will— now, final point is crossing both or joining up Beatrice and Jeffrey. Beatrice talked about the steady state 2050, actually addressing the issue of identity and preferences, political preferences. And Jeffrey talked about the trajectory, so the Hixian trajectory, getting to, to get, to get there. Now we try in the report to provide some elements, not systematically fully, but for instance, when we say that in terms of concrete steps, I mean, we call it in one of the chapters actually have worked on the, you know, a retooling strategy. Strategies, try to identify key nodes where you can actually make a difference without a dramatic ceding of sovereignty. Take one example, I finish with that to leave to Giancarlo, state aid. Now, state aid is an issue that is fragmenting, risks to fragment Europe, and especially on the defense side. The risk here is that defense, instead of being a unifying element, actually creates new fractures. So that is a very important element.

[00:56:20.02]

So if one would say it is inevitable in a sense to accommodate somehow, you know, lose the state aid, why not to say, okay, a share of the national state aid, you set it aside for joint projects. So not all for national but also for European approach. Why not creating easier conditions on national state aid for cross-country projects in various areas, also on some of the things that Draghi indicated? So I think we try to get some small building blocks on the trajectories But I agree that we have to design the steady state, try to see the steady state. And I think in the past we have not done it because it was divisive. I don't think we can do, we can do the next step by stealth. I think, and that is so, and the trajectory is absolutely fundamental.

[00:57:21.12] - Harold James

Thanks.

[00:57:23.24] - Adam S. Posen

Thank you. Giancarlo, you get the last word.

[00:57:26.19] - Giancarlo Corsetti

Yeah, let me get the privilege of having, I hope also an American audience. One of the titles we were told, too American to use, is this: We are not in Kansas anymore. Europe faces a different world there. It faces a different world where the US not only does not provide insurance, dropping many guarantees on many things, but it may have a strategic interest in making other countries weaker, more divisive, more, you know, like in a way creating shocks. This is why the solidarity insurance, we're equally skeptical that, you know, will be done tomorrow. But remember, we know that insurance is easier when the risk is higher, because, you know, there is more to lose not to comply with insurance. So there is a move that Europeans could consider very much in their interest. I completely agree with Jeffrey idea. This is actually a great way to put it. You need to have somebody who gained more than others, not to be the leader. That is definitely true. But I think it would be good to think about the move, the transition to the long run, recognizing that things are going fast. And one last comment I want to make, we sort of love heterogeneity in Europe.

[00:58:49.29]

In a way, we need to recognize that heterogeneity in Europe, diversity is an Not only countries, also region, clusters of production, region integrated. The problem is not heterogeneity, the problem is fragmentation. And these shocks from external power and enemies or whatever you want to call it will create destabilizing fragmentation in the sense of polarization. We experienced that in 2010, 2012, '15. We would not like to go back there. So in a way, I think this is the existential challenge for Europe, recognizing that diversity, heterogeneity is an asset. Maybe we don't go China, we don't go US, but in a way we don't want to go in a completely fragmented way in which, you know, basically we end up having sort of an even unintentional beggar-thy-neighbor decisions, right? Instead of recognizing the area for joint action and joint benefit. I think I should stop here. But I don't know whether you like, "We are not in Kansas anymore." I don't know how to tell the Europeans, but that would be my favorite slogan.

[00:59:59.24] - Adam S. Posen

Well, we are hoping with this effort to bring more of your views and these debates to an American audience. We are grateful to Giancarlo and Marco and their contributing authors. It's a very rich report. Very multidimensional, which we could only touch on, even though the themes they mentioned run throughout. We're very grateful to Harold and Jeff for, as ever, bringing incredible insights and gentle wisdom in ways that matter. And we're grateful to Beatrice, not only for her ambitious Christine's comments and her mention of the overall Europe 2050 project that our Peterson colleague Blanchard is leading and where I tried to goose CEPR into doing, but for the ongoing partnership between the Peterson Institute and CEPR to bring more of the deeper practical, but not dismissive and not cynical discussion of European policy options to an American and a global audience. So with that, thank you all for joining us. We'll look forward to seeing you all again virtually or in person at the Peterson Institute before long. Goodbye.

[01:01:26.19] - Marco Buti

Thank you very much.

[01:01:27.09] - Giancarlo Corsetti

Thank you. Thank you.

[01:01:28.10] - Beatrice Weder di Mauro

Thank you, Adam.

[01:01:29.05] - Harold James

Thank you.

[01:01:29.16] - Beatrice Weder di Mauro

Bye-bye.